



CalPERS
Investment Office

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October 20, 2008

AGENDA ITEM 3a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

I. SUBJECT: Summary of Services for General Pension
Consultant Spring-Fed Pool and Private Equity
Consultant

II. PROGRAM: CalPERS Total Fund

III. RECOMMENDATION: 1. Approve the Summary of Services for the
General Pension Consultant Spring-Fed Pool.

2. Approve the Summary of Services for the
Private Equity Consultant.

IV. ANALYSIS:

On September 15, 2008, the Investment Committee approved the issuance of Requests for Proposals (RFPs) for creation of a General Pension Consultant Services Spring-Fed Pool and a stand alone contract for the Committee's Private Equity Consultant. Competitive solicitations for these services will commence following Committee approval of the proposed summary of services for the consultant contracts as detailed below. If approved, Staff will prepare the full detailed scopes of services required for the RFPs. Staff plans to release the General Pension Consultant Pool RFP on or around October 31, 2008 and the Private Equity Consultant RFP on or around November 14, 2008. Both the Pool and the Private Equity Consultants contracts are anticipated to have July 1, 2009 start dates. The Schedule of Events for the RFPs are included as Attachments 1 and 2.

GENERAL PENSION CONSULTANT SPRING-FED POOL

Proposed Summary of Services

The Investment Committee has a need for a broad range of pension consulting services. The purpose of the General Pension Consultant Spring-Fed Pool is to identify and retain a pool of consultants so that resources are available to the Committee and staff. The proposed structure allows for an individual firm to submit a proposal for all service areas, a single service area or any combination of the proposed service areas. This structure will provide the Committee with maximum flexibility in choosing consulting resources for any anticipated need.

The proposed service areas are described below. In addition, each service area will contain a requirement to attend and participate at pertinent Investment Committee Meetings, Policy Subcommittee meetings and Board workshops, as well as a provision for special project work.

General Investment Analysis and Research

- Analysis of and recommendations on investment policies and issues, general portfolio management, cross asset class strategies, and risk management/risk budgeting;
- Technical advice on all asset types;
- Research reports on investment concepts and markets;
- External investment manager and investment partner reviews;
- Strategic advice on investment strategies;
- Analysis of global industry and market sector development and trends;
- Economic analysis;
- Review and analysis of all asset class' or investment program's strategic and annual plans;
- Analysis of recommendations regarding investment personnel incentive compensation.

Organizational and Structural Analysis

- Review and analysis of complex investment related organizational issues;
- Evaluation of portfolio structures;
- Review and analysis of internal controls and risk management;
- Advice and recommendations on third party services such as custodial services and third-party administrators.

Performance Analysis and Benchmarks

- Performance monitoring, analysis, and reviews for any and all asset types, programs, cross asset class strategies, and total fund;
- Review of and recommendation on benchmarks.
- Performance comparisons to other funds and managers.

Asset Allocation

- Analysis of and recommendations on strategic and tactical asset allocation strategies and implementation plans;
- Advice to the Committee's asset allocation process;
- Sector and attribution analysis.

Risk Management and Risk Budgeting

- Analysis of and recommendations on risk management (including risk budgeting), strategies, and program implementation and tools.

Specialty Consulting

- Analysis, recommendations and advice to the Committee on new or specialized asset types and classes. Specialists currently needed for both infrastructure and forestland.

PRIVATE EQUITY CONSULTANT Proposed Summary of Services

The Investment Committee also has a need for an independent Private Equity consultant to perform all services described below. The Private Equity consultant will serve as the Board's independent consultant for this asset class and will also work with staff. The Consultant will also work and coordinate with the other Board investment consultants. In addition to the services below, the Private Equity Consultant will participate at Investment Committee meetings, Policy Subcommittee meetings, and Board workshops, and will complete special project work.

Strategy and Policy Analysis

- High level strategic advice regarding private equity markets, opportunities, and trends;
- Review and analysis of the Committee's private equity investment policies;
- Review and analysis of the private equity program's annual and strategic plans;
- Identification of recommendations on new private equity investment opportunities/market trends;
- Advice and recommendations regarding interplay between private equity and other asset classes.

General Investment Analysis and Research

- Independent review, analysis and opinions on private equity opportunities;
- Analysis of new developments within the private equity market;
- Research reports on private equity concepts and markets;
- Validation and analysis of incentive fee calculations and structures for investment partners.

Performance Analysis and Monitoring

- Performance reports and analysis of the private equity portfolio and its programs and investment partners;
- Guidance related to performance methodologies;
- Recommendations on optimizing performance;
- Advise Board as appropriate on all aspects of program implementation;
- Recommendations on benchmarks.

NEXT STEPS

Staff seeks input regarding the proposed services to be provided. Based upon the Committee's direction, staff will prepare the detailed scopes of services and finalize the RFPs for release within the next month.

V. STRATEGIC PLAN:

1. Goal VIII, manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits, and second, to minimize and stabilize contributions.
2. Goal IX, achieve long-term, risk-adjusted returns.

VI. RESULTS/COSTS:

The Investment Office's budget includes funds for the General Pension Consultant Spring-Fed Pool. Staff anticipates that the budgeted amount may need to increase slightly for the new spring-fed pool. However, until the composition of the pool is known, an amount cannot be estimated. In addition, there will be additional costs for the stand alone contract for a Private Equity Consultant. Staff will bring funding requests forward during the annual budget process if additional resources are needed.

Matthew Flynn
Division Chief

Anne Stausboll
Interim Chief Investment Officer